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STAAR Surgical Co. (STAA)

Q3 2026 Earnings Call

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CORPORATE PARTICIPANTS

Connie Johnson
Director-Investor Relations & HPMS, STAAR Surgical Co.

Warren Foust
President, Chief Executive Officer and Director, STAAR Surgical Co.

Deborah J. Andrews
Executive Vice President and Chief Financial Officer, STAAR Surgical Co.

OTHER PARTICIPANTS

Thomas M. Stephan
Analyst, Stifel, Nicolaus & Co., Inc.

John Young
Analyst, Canaccord Genuity LLC

Anthony Petrone
Analyst, Mizuho Securities USA LLC

Young Li
Analyst, Jefferies LLC

Ryan Zimmerman
Analyst, BTIG LLC

David Saxon
Analyst, Needham & Co. LLC

Harrison Parsons
Analyst, Stephens, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the STAAR Surgical Third Quarter 2026 Results Call and Webcast. During today's presentation, all parties will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the call over to Connie Johnson, Director of Investor Relations. Please go ahead.

Connie Johnson

Director-Investor Relations & HPMS, STAAR Surgical Co.

Thank you, operator. Good afternoon, and thank you for joining us. On the call today are Warren Foust, President and Chief Executive Officer of STAAR Surgical; and Deborah Andrews, Executive Vice President and Chief Financial Officer of STAAR Surgical. Earlier today, we reported our third quarter 2026 results. We posted our results release and shareholder letter to our investor website at investors.staar.com. Today's call is scheduled for one hour and will include Q&A for publishing analysts. We also invite webcast participants to send questions to ir@staar.com.

Before we get started, during today's discussion, we will be making forward-looking statements. These statements are subject to risks and uncertainties that may cause actual results to differ materially from those expressed or implied. Please read the disclosures in today's release and our SEC filings. Except as required by law, STAAR assumes no obligation to update these statements to reflect future events or actual outcomes.

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We will also reference certain non-GAAP financial measures, including adjusted EBITDA, adjusted EBITDA per diluted share, free cash flow, and results excluding the China deferred sales. Please refer to today's release for additional information and applicable reconciliations to the most directly comparable GAAP measures. Unless otherwise specified, all comparisons will be year-over-year.

Finally, we intend to use our investor website to disclose material non-public information and comply with Regulation FD. Please monitor that website, along with our press releases, SEC filings, and public calls and webcasts.

With that, I would like to turn the presentation over to Warren. Warren?

Warren Foust

President, Chief Executive Officer and Director, STAAR Surgical Co.

Thank you, Connie. Good afternoon, everyone, and thank you for joining us. At the start of the year, we set three goals revenue growth, profit expansion, and innovation acceleration. Through the first nine months, we've made progress on all three. Year-to-date, we delivered record revenue, achieved strong profitability, and took important steps toward bringing our next generation of products to patients. Our strong cash flow and debt free balance sheet give us flexibility to keep investing in that future.

I want to thank our teams in China and Japan, our two largest markets, as well as all of our dedicated employees in Switzerland and the United States and all around the world. This year, they implemented a new ERP system, completed the move of China-bound ICL manufacturing to Switzerland, ramped production to support the EVO+ launch in China, and began the clinical trial process for two new lenses, all while continuing to serve surgeons and patients. That is a lot of change, and they have delivered and continue to do so, strengthening how we operate and laying further groundwork for future growth.

Now let's talk about where we stand. Let me start with revenue growth, which is being driven by an ongoing shift from lasers to lenses. With China being our largest market, let's go right there and spend a little time. In the third quarter, excluding the $25.9 million recognized in the third quarter 2025, revenue grew 31%. Distributor unit shipments in the China market grew 12.4% through the first nine months, a step-up from mid-single-digit growth in 2025, outpacing the broader Chinese refractive market.

We're encouraged that hundreds of mid-tier hospitals have begun to close the gap with our largest and longest established centers, which continue to set the benchmark for ICL productivity and have recently publicly cited EVO+ as a driver of their growth. Recent commentary from Aier provides one useful perspective. In reporting on its third quarter performance, Aier cited rising penetration of premium refractive procedures including EVO+ as supporting a better procedure mix that is consistent with what we are seeing in EVO+ adoption across China.

Mix is helping us as well. Adoption of EVO+ and toric lenses is raising our average selling prices, and because we were not yet able to fully meet the demand for lenses in the third quarter, all of our China net sales growth came from higher average selling prices. Our focus on ensuring proper inventory levels continues to pay off as well. In fact, distributor inventory has declined over the past four quarters to below our six-month target, while in-market unit volume shipments have grown. Alongside our inability to fully meet third quarter lens demand, this reinforces our focus on expanding manufacturing capacity. As available supply improves, we expect our shipments to our distributors to reflect underlying demand more closely. We are quite pleased with our progress in China. Globally, we delivered record revenue through the first nine months.

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Turning back to regional performance. Asia Pacific, excluding China, grew 4%. Revenue growth in India, Taiwan, and other markets was partly offset by a slight decline in Japan, primarily due to currency and South Korea, primarily caused by overall market weakness. In EMEA, we grew 31% or 51%, excluding the Middle East. Our growth was driven by strong double-digit growth in Spain, Germany, and the UK. We round out our global performance with the Americas, which put up 14% growth. Growth in the Americas was led by the US, where we posted our third consecutive quarter of greater than $6 million in sales. In the US, the opportunity is not only about gaining share within the existing refractive surgery market, it is about helping practices reach appropriate patients, who have remained on the sidelines.

Refractive Surgery Council data indicate that US laser vision correction procedures have declined 5.8% in 2026 versus 2025, while our sales grew double digits. We believe the ongoing structural shift of the refractive surgery market from lasers to lenses is an important long-term growth driver. In September, we published our market report, The Future of Refractive Surgery, which shows the ongoing shift from laser-based to lens-based vision correction in multiple markets. Our consumer research shows that patients want freedom from glasses and contacts and that they place a high value on safety, choice, and reversibility. Our job is to help practices turn that interest into treatment.

On profit, we continue making progress, and there is more work to do. For the first three quarters, we have delivered record revenue, strong adjusted EBITDA and free cash flow, and we remain debt-free. Excluding the impact of the China deferred sales on the prior year comparison, we improved from an adjusted net loss in last year's third quarter to GAAP net income this quarter.

Gross margin in the third quarter was affected by several temporary factors, including the ERP implementation, freight, tariffs, and inventory provisions. Looking ahead, we expect fourth quarter gross margin to be above the third quarter, and we expect gross margin to continue to improve in 2027 as unit costs improve with both our US and our Swiss production facilities running at full capacity.

Our operational priorities are clear, improved product availability, increased manufacturing yields, and allocate capital where it offers the best return on shareholder investment. In September, our board authorized a $50 million share repurchase program, reflecting its confidence in the business and its belief that STAAR shares are undervalued. We will continue to take a disciplined, returns-focused approach to capital allocation to maximize shareholder value creation over time.

That brings me to our third goal, innovation acceleration. We are focused on innovating in three key areas, of course, product innovation, but also commercial innovation, as well as operational innovation. When we talk about product innovation, we're focused on the future of vision. Collamer is at the heart of what makes EVO different. With more than 30 years of clinical evidence, over 100,000 eyes studied, and more than 4 million lenses distributed worldwide, we believe that EVO ICL stands as the most clinically validated phakic IOL in the world, giving us a strong foundation for expanding beyond our core offering.

Ben Park, our recently appointed Chief Technology Officer is leading our R&D team's work across a variety of therapeutic areas. Ben joined us a few months ago and is already making an impact. I'm excited about how his engineering, material science, and commercialization experience will help us harness Collamer's advantage to develop new products.

We are approaching an important milestone. First-in-human trials for two Collamer-based presbyopia products are expected to begin patient enrollment in the next few months, subject to the receipt of the remaining required regulatory authorizations. These studies are a tangible step from pipeline to patient. Our ambition is to build

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toward a meaningful product launch in a critical market every 18 months to 24 months. It will take time to build that reality, but we are already on that journey, and I'm excited by the potential.

Our commercial innovation strategy is clear, make EVO ICL a primary option for patients who want freedom from glasses and contacts. That means deeper adoption with surgeons already choosing EVO, expanding into [ph] low diopters (00:09:44), and reaching new patients who are searching for freedom from glasses or contact lenses. To lead that effort, David Bailey, a former STAAR CEO, returned in September as Chief Commercial Officer. David built much of what our commercial engine is today, and he has a clear mandate to drive deeper surgeon adoption of EVO. That means better education, stronger evidence programs, smarter use of data, and more targeted patient awareness, market by market and surgeon by surgeon.

We also welcomed Andrew Pilon as Vice President of Business Development to expand strategic partnerships and our global footprint. Earlier this week, we appointed Pascal Aeschlimann as Vice President of Asia Pacific. Pascal helped lead our expansion across Asia and the Middle East during his earlier tenure with STAAR.

Recent label expansions raised US eligibility to age 60, adding approximately 8 million potentially eligible patients and lowered Brazil's minimum prescription to minus 0.5 diopters, adding an estimated 26 million potential patients. Our opportunity is to help appropriate newly eligible patients access treatment.

Finally, operational innovation is about delivering with excellence. We completed the operational transition that allows all China-bound ICLs to be manufactured in Switzerland, reducing our tariff exposure and strengthening supply chain resilience. DEKRA certification for a second clean room at Nidau supports our ability to scale further. We are improving manufacturing yields, expanding machining capacity at Monrovia, and evaluating automation while maintaining the rigorous quality standards required for Collamer. Each percentage point of yield improvement could generate approximately $750,000 to $1 million in annual incremental gross profit.

Building on our new ERP system, we are also strengthening supply chain planning and inventory management capabilities. Our work to strengthen the organization for future growth continues.

With that, I will turn the call over to Deborah to walk through the financials. Deborah?

Deborah J. Andrews

Executive Vice President and Chief Financial Officer, STAAR Surgical Co.

Thank you, Warren, and good afternoon, everyone. I'll review our third quarter results, including the impact of the prior year's deferred sales item, then discuss our margin outlook, operating expenses, and cash position.

Third quarter net sales were $83.4 million, down 12% from the prior year quarter. The prior year quarter included $25.9 million of deferred China sales, which I'll refer to as the China deferred sales. Excluding the China deferred sales, prior year third quarter net sales were $68.8 million. Against that base, our third quarter 2026 net sales increased 21%.

Turning to our regional performance. China net sales were $39.3 million compared with $55.8 million in the prior year quarter. Excluding the China deferred sales from the prior year period, China net sales grew 31% from $29.9 million. All of our third quarter China net sales growth came from higher average selling prices due to the mix shift to V5 and toric ICLs.

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Outside China, net sales increased 13% to $44.1 million compared with $38.9 million a year ago. In our other regions, we saw growth across most markets, though Japan and South Korea faced regional challenges that affected APAC revenue growth outside of China.

Moving to gross margin, third quarter gross profit margin was 70.9% compared with 82.2% in the prior year quarter. The prior year comparison was significantly affected by the impact of the China deferred sales, which required that revenue be recognized at 100% gross margin. This increased third quarter 2025 gross margin by 6.7 percentage points. Excluding that item, prior year gross margin would have been 75.5%.

Our third quarter 2026 gross margin also reflected several temporary pressures. These included higher manufacturing costs associated with low production volumes in the second quarter as we implemented our new ERP system, higher freight costs, tariffs on US manufactured products sold into China, and increased inventory provisions for expiring inventory. We expect unit costs to remain elevated for the balance of the year as we sell through inventory produced in the second quarter. However, both manufacturing facilities are now operating at full capacity, and we expect unit cost to improve in 2027.

For the fourth quarter, we expect lower tariffs and smaller inventory provisions to lift fourth quarter gross margin above third quarter levels. Importantly, by the end of the third quarter, we had transitioned manufacturing of all ICLs destined for China to our Swiss facility. This is expected to reduce our exposure on tariffs on US origin products entering China. US-manufactured products already in inventory will, however, remain subject to tariffs when sold into China.

Turning to operating expenses, total third quarter operating expenses were $53.7 million compared with $59.4 million a year ago. The prior year quarter included $6 million of restructuring and merger related costs. Excluding those costs, operating expenses were approximately flat year-over-year. We remain on track to meet the $225 million adjusted operating expense target established at the beginning of the year. Within operating expenses, general and administrative expenses were $18.9 million compared with $20.8 million in the prior year quarter. The decrease reflected lower variable compensation, partially offset by higher depreciation expense related to our new ERP system.

Selling and marketing expenses were $24.3 million compared with $23.5 million a year ago. The increase reflected higher consulting and depreciation expenses related to the ERP system, as well as increased advertising and promotional activities, partially offset by lower variable compensation. Research and development expenses were $10.5 million compared with $9.2 million in the prior year quarter, primarily reflecting higher salary related expenses, ERP related expenses, and professional fees.

Third quarter operating income was $5.5 million compared with $18.5 million in the prior year period, which included a $25.9 million benefit associated with the China deferred sales. Excluding that benefit, the company would have reported a prior year operating loss of $7.4 million. GAAP net income was $5.6 million or $0.11 per diluted share compared with $8.9 million or $0.18 per diluted share in the prior year quarter. The China deferred sales contributed $15.2 million to prior year net income after-tax. Excluding that contribution, the prior year quarter would have reflected a net loss of $6.3 million or $0.13 per diluted share.

Adjusted EBITDA for the third quarter was $14.4 million or $0.28 per diluted share compared with $34.7 million or $0.69 per diluted share in the prior year quarter. Excluding the impact of the China deferred sales, prior year adjusted EBITDA would have been $8.9 million or $0.18 per diluted share.

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Turning to our balance sheet, cash, cash equivalents, and investments available for sale totaled $206.4 million as of October 2, 2026, compared with $181.5 million at the end of the second quarter. We have no outstanding debt.

To close, our record nine-month net sales performance supports our expectation for strong full year GAAP net income and free cash flow. Our focus remains financial discipline, new product development, and selective investment opportunities with the clearest potential return.

With that, I'll turn it back to Warren.

Warren Foust

President, Chief Executive Officer and Director, STAAR Surgical Co.

Thank you, Deborah. Stepping back, we have delivered record nine months revenue, generated net income and free cash flow, and strengthened our balance sheet. We have also advanced the work that positions STAAR for the future. We've on-boarded experienced leaders, made progress in presbyopia, expanded manufacturing capabilities, and structured the company for stronger commercial execution. There is more to do improve product availability, increase manufacturing efficiency, and turn more patient interest into EVO procedures. Our team is focused on those priorities.

The long-term opportunity remains compelling. The structural shift from laser to lens is under way. EVO+ adoption in China is still early, and we are taking tangible steps toward building a broader product portfolio. Our management team and board are fully aligned. We will measure progress by what we deliver financially, operationally, and through our innovation pipeline.

With that, operator, we are ready to take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] The first question will come from Tom Stephan with Stifel. Please go ahead.

Thomas M. Stephan

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. Hey, guys. Thanks for taking the questions, and congrats on the nice results here. I wanted to start off on China inventory. Warren, maybe for you, if you can just elaborate on those inventory dynamics, what exactly happened there in the quarter? It sounds like the distributors weren't actively trying to work down inventory below the six-month levels. Rather, was it because of your inability to fully supply? Is that fair? And if so, can you quantify for us that supply headwind to revenue in China in the quarter? And then I have a follow-up.

Warren Foust

President, Chief Executive Officer and Director, STAAR Surgical Co.

A

Yeah. Hey, Tom. Great to hear from you. Good question. Look, we're pleased with the pace that we saw in-market of the unit volume in China. We mentioned in our prepared remarks that was around 12.5%. So that was really good. That obviously helped put pressure on already below the six-month target level inventory in China. We've been at that level or below since September of last year. So we take a lot of pride in managing that now very closely.

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So I think our inability to fully supply the demand could be a component of it. But you have to remember, there's a high level of complexity to manufacturing Collamer based products. It's not the same as acrylic material where it's much easier to manufacture. There are literally hundreds of thousands of SKUs that are necessary to be created to satisfy full demand. So sometimes even when we're supplying the products against the demand, you may have holes in that inventory that don't allow the customer to deliver that lens on that same day. But in-market demand is what drove the depletion of inventory, and we continue to watch that and make sure that we don't allow inventory to be a driver of revenue in China.

Thomas M. Stephan
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Got it. Makes sense. And then pivoting away from China, ex-China revenue really strong in the quarter, I think up 13% year-over-year and up more ex-Middle East, nice acceleration from the first half. Was there anything unique in the quarter that drove that acceleration that potentially might not repeat? And then can you talk about kind of what you view as the durable growth rate of ex-China revenue moving forward, particularly as we maybe lap some of these Middle East headwinds? Thanks for taking the questions.

Warren Foust
President, Chief Executive Officer and Director, STAAR Surgical Co.

A

Yeah, good ones, Tom. So we're proud of the performance of our teams outside of China, a lot of work and dialing in their execution, so really good performance. So thank you to all of those teams. Listen, we're seeing a foundational shift in refractive surgery. We put out our FoRS Report, The Future of Refractive Surgery Report, in which we highlight the reality is laser volume is declining in almost every market where ICLs, phakic IOLs are increasing, and we're the leader there because of Collamer technology. And so we think that there's a foundational shift that's happening. We think that that plays a role in the performance ex-China. It plays a role in China as well. But there's nothing that I would point to that would say, gosh, that's a one-time that we shouldn't expect again. I'm not predicting that the revenue is going to be 13% or any other number for go forward. We're stopping short of predicting what that's going to look like. But we're pleased with our progress, and we look forward to continuing the momentum.

Operator: The next question will come from John Young with Canaccord. Please go ahead.

John Young
Analyst, Canaccord Genuity LLC

Q

Hi, Warren, Deborah. Congratulations on the quarter, and thank you for taking the questions. I also want to first start on China, and maybe I could ask this another way. If any demand went unmet in Q3, which it sounds like it may have, do you get a sense that customers may have reached for a competitive lens or could we see any Q4 catchups or restocking of those distributors to get to those – back to those contractual levels? And then I have a follow-up. Thanks.

Warren Foust
President, Chief Executive Officer and Director, STAAR Surgical Co.

A

Yeah. Hey, John. It's a good question. I don't anticipate large volumes of restocking. We're still – we're close to that level of six-month target that we've talked about. Being unable to supply, remember, we provide toric lenses. We had a higher mix of EVO+, so V5 mix was – put more demand against our supply chain. So, in some instances, it was just lenses that we were unable to supply. It wasn't super high quantity of lenses that we were

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unable to supply. So we don't anticipate a big bulk order, if that's the question, to drive any of the Q4 sales. So I feel fine about that.

John Young
Analyst, Canaccord Genuity LLC

Q

Okay, great. And then just focusing on the new technology you outlined on the prepared remarks, maybe you could just talk about how the new presbyopia lenses differ from the existing EDoF lenses that you're offering in Europe in the past. Why two trials? Maybe [ph] give us preview just thoughts (00:24:47) on the size of these trials, timelines, and anticipated spend. Thank you again.

Warren Foust
President, Chief Executive Officer and Director, STAAR Surgical Co.

A

Sure. You bet. Thanks for the question. Listen, we're really excited about Dr. Ben Park, who's joined us and we're excited about the R&D team that we've had now for years working on projects, and we're bringing forward now, in a more controlled way, with a more thoughtful approach to our portfolio, and the first two up are the presbyopia options that the team has been working on. So those have been described in the public forum as a multifocal and as an aspheric opportunity. We've learned a lot from EVO Viva that exists in the market today, and that's a lens that's designed for myopia with extended depth of focus.

The reality is that lens came along at a time when we didn't know as much as we know now about the patient, about their demands, about the ability to have residual accommodation. A patient who still has their natural crystalline lens has the ability to accommodate differently than an IOL patient has because they have their entire crystalline lens removed. We understand that better now. So we believe that the two new optics that we're going to go to first-in-human trials over the course of the next few months, they take into consideration that feedback that we've gotten from both patients and from our customers. So we're excited to bring those forward.

As far as timelines, you heard the prepared remarks around, in the next few months, we anticipate going into first-in-human trials. Of course, that's reliant upon the regulatory approvals to do so, and we're going through that process now. Our teams have put in a bunch of work, and we're excited to see the outcome of those as we go forward.

Operator: The next question will come from Anthony Petrone with Mizuho Group. Please go ahead.

Anthony Petrone
Analyst, Mizuho Securities USA LLC

Q

Thanks. Maybe I'll stick with China and then pivot to the US, and [ph] congrats to you (00:26:40) Warren, on the second quarter in the CEO role. Just on China, you have some large channel partners there, [ph] Aier, eye care group (00:26:50) in particular, and they seem to, certainly in the past have this cadence of a backlog that they fill up for ICL volumes. On the other hand, they're also a big refractive player. So, from some of your key channel partners, what does the funnel and pipeline look for ICL volumes heading into the last quarter of the year, do you have visibility into the beginning of next year? So that would be the first question. And then I'll come back with the one on US. Thanks.

Warren Foust
President, Chief Executive Officer and Director, STAAR Surgical Co.

A

Okay. Thanks, Anthony. Appreciate the question, and thanks for asking. Look, we're proud of the relationship we have with Aier. It's not just Aier. We have strong relationships with other large integrated health systems, both eye

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hospitals and public hospitals, offering lots of procedures. You've seen Aier talked about that EVO+ or V5 was a larger percentage of their procedural mix. They recognize that customers are coming in and asking for these products. They're coming in and asking for V5 by name because of the larger optic, maybe providing better vision at nighttime, as an example. They're asking for torics in the example where they have a – they needed toric because of an astigmatism.

And so these patients are there. I don't see any change in the patients. If you're wondering about refractive volume in China, I think we've said and I think others have reported, it's stable. It's not amazing. The reality is we're getting a disproportionate share because of mix, because patients are asking for torics and patients are asking for V5, and we enjoy a premium in average selling price as a result of that mix improvement.

Anthony Petrone
Analyst, Mizuho Securities USA LLC

Q

That's helpful. And then just on the US side, when you think of site of service, there's some high volume refractive sites out there. There's also a channel of LASIK providers. LASIK now is – it's on its third years of declines. And so the question here, are there other channels potentially that can bring in ICL, maybe even some of the brick-and-mortar players that are out there or will this just be kind of allocated to the high volume refractive centers and there's just further wood to chop on that end? Thanks.

Warren Foust
President, Chief Executive Officer and Director, STAAR Surgical Co.

A

Yeah, it's a good one, and it's – it gets into growing the market and getting more folks out of glasses and contacts, which they tell us they want to do. You see the report. We've got 7,000 or 8,000 patients in The Future of Refractive Surgery Report that says people are interested in getting out of glasses and contacts. They are – in many instances, they're afraid of lasers. That's what's been said.

And so we want to access those folks. The ways to do that, if you think about the refractive market at its height in the United States being, I don't know, 1.5 million procedures or so, probably 750,000 people, and that number has fallen for lasers down in the 200,000 or 300,000 people range, which is just anemic. Meanwhile, ICLs are growing double digits, so we're happy with that. But we've got to get more people off the sidelines.

Now, whether it's going to be brick-and-mortar shops that are going to help us do that, when you think about what some of the big players that are starting to vertically integrate, you see places like EssilorLuxottica making an acquisition of a clinic in Europe. You see the opportunity starting to arise where maybe the providers on the optometric side have interest in staying with their patient through the lifetime journey where they would otherwise stay in glasses and contacts. Maybe surgery becomes an option for them.

So to the extent that they demonstrate interest in vertically integrating for the surgical options, yeah, that could unlock opportunity, but that's speculative at this point, although there's some discussion about it that we hear in the market. So we're excited for that to happen. That would just be more people getting out of glasses and contacts, and we believe, based on the way the refractive landscape is changing, that would be in our favor.

Operator: The next question will come from Young Li with Jefferies. Please go ahead.

Young Li
Analyst, Jefferies LLC

Q

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Hi. Great. Thanks for taking the question. I guess maybe back to China, in terms of EVO+ performance driving a lot of the growth in China, maybe update us on where is penetration for that product today, and then where do you think penetration can go longer term, with it?

Warren Foust
President, Chief Executive Officer and Director, STAAR Surgical Co.

A

Yeah, it's a good one. Thanks for the question, and average selling price increases because of mix, both toric and a higher percentage of V5 definitely played in our favor from a two market sales, the sell-in on revenue. Now, important to call out the pace of in-market unit volume that's going – think of it as sell-out from the importers and distributors downstream, that number was pretty healthy. We've said that number was 12.5%. And so I think that that says that we're doing pretty well in the market. Where that's happening, we're pleased that we had high growth in lower diopter units. We had higher growth in low diopter than we did in high diopter units in this cycle, which is encouraging.

We're also seeing adoption at sort of the mid-tier hospitals. Our longest established, highest-volume, by far highest-volume partners think of the large hospitals, [ph] ENT hospital, the Aier System, Bright Eye, Washa (00:32:12), et cetera, those continue to lead and set the tone for ICL procedures. But we're seeing nice growth in the public hospitals, and we're seeing very nice growth in that mid-tier hospitals, which means we have room to continue to grow across the many thousands of hospitals in China.

Young Li
Analyst, Jefferies LLC

Q

All right. Great. Very helpful. And then maybe on South Korea, can you maybe double-click on some of the market weakness you're seeing there and then thoughts on when that can potentially turn around?

Warren Foust
President, Chief Executive Officer and Director, STAAR Surgical Co.

A

Yeah. Korea has been a great market for us for many years, even when it's a little lower in volume relative to market issues or currency issues or any other number of things that are happening. It continues to produce nicely for us. So we're proud of that market and of our partnerships there.

There's market softness broadly across Korea. That market could be down as much as 5% to even 10%. It's hard to say until we get through a full year to really understand it. So we think there's a little bit of market softness. We still believe that the end market in the quarter did just fine. We'll continue to watch it, but it's primarily market issues.

Operator: The next question will come from Ryan Zimmerman with BTIG. Please go ahead.

Ryan Zimmerman
Analyst, BTIG LLC

Q

Oh, thank you. Good evening, everyone, and thank you for taking the question.

Warren Foust
President, Chief Executive Officer and Director, STAAR Surgical Co.

A

Hey, Ryan. You bet. Nice to hear from you.

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Ryan Zimmerman
Analyst, BTIG LLC

Q

I have to go back to the China thing, and I apologize because we're talking so much about this. But I'm trying to reconcile your comments, which were in the disclosures, that the entire year-over-year increase in China sales was ASP-driven. And so if the sell-in rate improved to 12.4%, and on an adjusted basis China grew 31%, are you saying to us that the market is essentially flat based on – when – accounting for the 31% improvement in China on an adjusted basis? I'm just trying to understand that in-market growth because your comments too, and Deb said this in the press release that there is some softness expected in fourth quarter. So what – sorry to hone in on this, but what is the in-market demand in China and from a volume standpoint?

Warren Foust
President, Chief Executive Officer and Director, STAAR Surgical Co.

A

Yeah, Ryan, thanks. It's a good question. I know we're throwing a lot of numbers and terminology. Importantly, I think of sell-in as what we sell to the market, and we usually report dollars around that. We don't share units. Then when we're talking about the in-market unit volume, that's our distributors' volume. We've referred to that in the past as in-market sales, which made it confusing. The reality is that's the units that our importers and distributors are selling downstream to their Tier 2 and Tier 3 distributors and to the hospitals.

So that's the in-market pace, and that's been a consistent number that we look at. That's the number that for the full year is at 12.5%. It's actually a little higher than that for the quarter. But I don't like to look at it on the quarter because these are shipments that are going downstream to the hospitals. They're not implants. We've always said it's a good proxy for implants, particularly when inventory is as healthy in a good way from a skinny inventory standpoint as it is now.

So the in-market shipments from our distributors to the hospitals is good, and that tells us that we're doing, we believe better than market from a unit perspective. Then you have to say, okay, we weren't able to supply all of the demand that they needed. So that's why we made the comment, we still grew. We still actually beat our internal plan, and we did that driven by mix because of the increase in toric and the increase in V5.

Ryan Zimmerman
Analyst, BTIG LLC

Q

Yeah. Okay. Helpful, Warren. I appreciate it. Sorry to hone in on that. But – so if all that is true, I guess what I'm trying to understand, pricing durability. If I – by my math, the unit pricing is up globally 29-plus-percent. And so how do you think about the durability of price, whether that's China, whether that's global? As you introduce V5, do you expect that to continue to grow higher as it takes the bulk of sales in China? Thanks for taking the questions.

Warren Foust
President, Chief Executive Officer and Director, STAAR Surgical Co.

A

Yeah. You bet. Good one. Look, customers tell us they love the fact that torics do such a great job for their patients with astigmatism, and that's a unique – that's unique for us. So the fact is the more – higher mix of toric we have in China or outside of China, the better our ASP is. And the higher the mix of V5 in China becomes, the better our ASP is. And the reality is, we've kind of just gotten started with V5, and one of the things that happened to us in the quarter, a lot of demand was put on our supply chain – a lot of pressure, I should say, was put on the supply chain because of the demand.

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The demand was stronger than what we were able to deliver, and that's because they wanted more V5 than we could provide. So we know that there's runway for V5, purely by the nature of we weren't able to provide what was needed. And as we talked about, we're growing nicely in lower diopter. We're growing nicely even in the mid-tier hospital. So we believe that we have continued opportunity to grow ICLs as a share of refractive, and within that, we have opportunity to grow the mix of toric and V5.

Operator: The next question will come from David Saxon with Needham & Co. Please go ahead.

David Saxon
Analyst, Needham & Co. LLC

Q

Good afternoon, Warren and Deborah. Thanks for taking my question. So maybe I'll just tack on to the China line of questioning, just kind of thinking more about fourth quarter though. So, historically, China in the fourth quarter has been down about $10 million sequentially. Very rough math, but it looks like you got about $10 million in price in the third quarter, and I would assume that that continues. So, I mean, is it fair to say or think about China being flat sequentially in the fourth quarter? And then kind of the second part of the question is just your general thoughts about providing guidance for 2027. Is that something we can expect either in January or the fourth quarter call or are you still waiting on anything from an operational milestone, before you do that?

Warren Foust
President, Chief Executive Officer and Director, STAAR Surgical Co.

A

Yes. Good questions, David. Thank you. Look, we're pleased with the three-quarter performance. We talked about that record revenue for us. But there's still things that we don't know, and there are still global both macro and geopolitical issues, that can create challenges for us. So we're stopping short of giving guidance or saying when we think we might be willing to give guidance. We've tried to provide clues and context and be helpful. We've tried to give some targets, at least internal targets, around things like operating expenses, which we're performing against. So I think we'll hold off on that.

Just as far as Q4, because it's a good question, if you think about – we talked about the shape of the demand, Q1 and Q2 being the real high season now in China, and then a sequential drop-off, although clearly not that much of one in Q3, and then Q4 would be lower. But we've said in our prepared remarks that we would grow in China versus last year. So we feel confident about those things. We'll continue to monitor as we go, and we'll update you as our thinking changes. But that's where we are today.

David Saxon
Analyst, Needham & Co. LLC

Q

Okay. That's helpful. Thanks for that. And then let's see. Just on the manufacturing yield and improvements you're making there, I guess I'd love to understand kind of how you think about the – I think it's $750,000 to $1 million per point of yield, like can you quantify like how much you think you can get out of that? I don't know if you're going to give us a yield, but – where you're at now, but like how should we think about that in the context of what you think you can get over time? Thanks so much.

Deborah J. Andrews
Executive Vice President and Chief Financial Officer, STAAR Surgical Co.

A

Hi. This is Deborah. Look, our manufacturing yields have been nicely above where they are currently today. As we said, we've kind of struggled with the ERP implementation and – but we've worked through most of the issues there and are now seeing improvement in the yield area as well. So we expect that our yields to return to normal

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and to significantly increase based on all of the efforts by our manufacturing folks in terms of improvements in the manufacturing area.

Operator: [Operator Instructions] The next question will come from Mason Carrico with Stephens. Please go ahead.

Harrison Parsons
Analyst, Stephens, Inc.

Q

Hey. This is Harrison on for Mason. Just taking another stab at next quarter, so looking at your performance this quarter, it looks like you grew 21%. Without giving guidance, can you just comment on anything that you expect to see differently in this upcoming quarter that should push you up to the higher or the lower end of the growth rate this quarter?

Warren Foust
President, Chief Executive Officer and Director, STAAR Surgical Co.

A

Yeah, it's a good one. Hey, Harrison. Good to hear your voice. Look, we're – again, we're going to not say what we think is really possible for Q4 just because there are still some unknowns. I'll just cite a few things that I think are important. We're continuing to scale manufacturing in Switzerland, and we're bang-on getting that accomplished for the full year. We just ended up having more V5 demand than we were able to contend with. The good news is now we've got a second clean room qualified. We just got the certification from DEKRA for that. So we're really excited about that. Thank you to our teams. That's great.

That's part of our plan originally, so that we would be able to scale Switzerland to the point where we could hand over the full manufacturing of ICLs destined for China to Switzerland, and that's done. We're proud of that, and that's going to be able to help us free up space, both to be able to accomplish delivering against the demand in China, but also on the critical made-to-order product that exists for around the world. Supplying the demand in China has put pressure on us being able to deliver these made-to-order lenses. These are essentially custom lenses for an individual, and that's why there are so many hundreds of thousands of SKUs possible. So we're balancing that complexity. I feel like we made a lot of progress. That's going to certainly lead into how we're able to perform, going forward. Now, what that means exactly for Q4, I think we'll stick with, look Q4 should be lower from a shape of demand standpoint. Yeah, we're going to grow versus last year.

Harrison Parsons
Analyst, Stephens, Inc.

Q

Got it. And then in the US market, have you fully worked down the back order issues you called out on the 2Q call at this point? Do you think that dynamic may have inflated 3Q results or do you view those as more lost sales in the second quarter?

Warren Foust
President, Chief Executive Officer and Director, STAAR Surgical Co.

A

It's a good question. They're kind of hard to parse out because when you think about a patient or a customer who's unable to get a device he or she wants in China, as an example, and I'll answer your question about the US, but in China, as an example, if a patient wants because they're coming in and asking for V5 and they can't get it for their specific configuration, then do they get a V4 or do they wait, or do they if they're a low diopter, do they get a laser, it's hard to say. We don't know. So it's conceivable to say that when a patient doesn't get the product on order, that we lose that patient. But it's also very possible that the patient waits, particularly if they're high diopter.

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I don't think there's a ton of interplay. There certainly wasn't an overinflated sale relative to that. There could be some patients that are waiting, so let's see. When you think about the US, we did have even a disproportionate impact of the MTOs. An MTO is a lens that isn't necessary for a patient who has an astigmatism, and there is not an existing SKU in the world and a distribution center. We have to go make that lens. And because of the unique nature of Collamer, these things take a while to make and to get right. And so we are working through the backlog there. I would say we're mostly through it. I would think about the MTOs as mostly through, and I would think about supply in general as we feel like we're positioned now well to supply against the demand that's coming.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Warren Foust for any closing remarks.

Warren Foust

President, Chief Executive Officer and Director, STAAR Surgical Co.

All right, operator. Thank you. And look, I just want to say thank you to for joining the call and for your interest in STAAR. We have delivered record revenues through the first nine months and strong profitability as EVO gained share, and it's helping to drive a global shift from lasers to lenses. Our priorities are clear growing adoption through sharper commercial execution, improving our operational performance to support profit expansion, and to advance an innovation pipeline that broadens our long-term opportunity. With strong cash generation and a debt-free balance sheet, we can invest in these priorities with discipline.

So I'm excited about our new product development and what it can mean for the future. We do see a large long-term growth opportunity in STAAR, and we believe we have the potential to become a much larger company as we add products and deliver even greater value to patients. Building that future is going to take some time, but I believe STAAR can become and remain focused on creating sustainable long-term value for our shareholders. So, on behalf of Deborah and everybody at STAAR, thank you for joining.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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